



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN HEALTH ACADEMY

**Financial Statements
June 30, 2008**



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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

October 8, 2008

To the Board of
Directors Michigan
Health Academy

We have audited the accompanying financial statements of the governmental activities of Michigan Health Academy, as of and for the year ended June 30, 2008, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Michigan Health Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Michigan Health Academy as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Michigan Health Academy
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2008, on our consideration of Michigan Health Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provencio, Schauman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN HEALTH ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of Michigan Health Academy's financial results for the fiscal year ended June 30, 2008. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

Academy Wide Financial Statements

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in net assets, which can either, increase or decrease on an annual basis.

Fund Financial Statements

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Agency and Trust Accounts

The Academy acts as a trustee for various student activity funds. These net assets are excluded from the Academy's other financial statements since these assets cannot be used to finance any of the Academy's operations. The Academy's responsibility is to assure that the reported assets are used for their intended purpose.

Condensed Financial Statements

Analysis of Overall financial Position and Results of Operations

Table 1 provides a summary of the Academy's net assets at June 30, 2008 and 2007.

Condensed statement of net assets

	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 357,954	\$ 337,273
Capital assets- Net of accumulated depreciation	22,751	47,276
Total assets	<u>380,705</u>	<u>384,549</u>
Liabilities		
Current liabilities	324,426	587,118
Long-term liabilities	245,247	36,958
Total liabilities	<u>569,673</u>	<u>624,076</u>
Net assets		
Invested in property and equipment -Net of related debt	(255,594)	(272,237)
Unrestricted	66,626	32,710
Total Net Assets	<u>\$ (188,968)</u>	<u>\$ (239,527)</u>

Total net assets increased by \$50,559 bringing net assets to a balance of (\$188,968). This negative net assets balance is related to the accelerated depreciation on the leasehold improvements while the debt is retiring at a slower rate. The leasehold improvements have been depreciated over the life of the five year building lease. Total assets of \$380,705 decreased by \$3,844 from the previous year. While assets did decrease, it was at a lesser rate than the previous year. Total liabilities decreased by \$54,403 due primarily to a reduction in the amount of debt from prior year loans. Loans secured prior to 2006 were paid with unrestricted funds.

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Condensed Financial Statements (cont.)

The Academy results of operations for 2008 and 2007 are reported below:

	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue		
Grants and contributions	\$ 249,457	\$ 159,981
General revenue		
State aid - unrestricted	1,350,366	1,185,170
Other	5,091	7,116
Total revenue	<u>1,604,914</u>	<u>1,352,267</u>
Function/Program expenses		
Instruction	704,608	648,505
Support services	806,758	664,270
Interest on long-term debt	18,464	18,956
Depreciation (unallocated)	24,525	79,782
Total expenses	<u>1,554,355</u>	<u>1,411,513</u>
Increase (decrease) in Net Assets	<u>\$ 50,559</u>	<u>\$ (59,246)</u>

Increased revenue and expense are directly related to the increased enrollment in the 2008 school year. Funding for a portion of these activities came from specifically designated State and Federal grants. The majority of the Academy's funding resulted from the per pupil State Foundation Allowance times the blended number of students. Overall revenue increased by 19% from the previous year while expenses were held to a 10% increase resulting in net asset increase of \$50,559. The positive net asset reverses the negative trend that has been seen in previous years.

Budget Highlights

Michigan Health Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, start of the fiscal year. As a matter of practice, the Michigan Health Academy Board of Directors amends its budget twice during the school year. During the fiscal year ended June 30, 2008, the Academy amended the budget on April 28, 2008 and June 24, 2008. A comparison showing the Academy's original budget, final amended budget and actual results is provided below.

	<u>Original</u>	<u>Final</u>	<u>% Variance</u>	<u>Actual</u>	<u>% Variance</u>
Total Revenue	\$ 1,448,095	\$1,608,727	11%	\$ 1,604,914	-16%
Total Expenditures	1,457,593	1,585,910	9%	1,570,998	-14%
Excess Revenue/Expenditures	(9,498)	22,817	-340%	33,916	-178%

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Budget Highlights (continued)

Changes from the original general fund budget to the final were as follows:

- A higher than anticipated student enrollment and additional federal and local grant funds contributed to the increase in total revenue.
- Expenses were higher than originally anticipated, yet overall budget control kept the rate of increase below the rate of revenue increase. The majority of the significant areas of increase in the amount of \$82,070 for compensatory education and improvement of instruction are directly related to the expense associated with federal and local grant awards. The remaining significant increase in the amount of \$27,989 is related to an increase in the Management Service fee to meet the approved contracted amount.

The variance in the final budget to actual in other business services and outgoing transfers off set each other. Management believes that other final budget to actual variances are not significant.

General Fund

The general fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2008, the fund increased by \$33,916. Originally a decrease in fund balance was anticipated, but increased revenue and expense control accounted for the positive increase.

Debt Service Fund

The Academy's debt service balances and debt reduction for the years ended June 30, 2008 and 2007 are as follows:

<u>Long-Term Debt Balances</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Renovation Loan - Comerica	\$ 241,386	\$ 254,034
Synergy Loan	-	15,451
Synergy Renovation Loan	36,959	50,028
Total	<u>\$ 278,345</u>	<u>\$ 319,513</u>
 <u>Debt Reduction</u>	 <u>June 30, 2008</u>	 <u>June 30, 2007</u>
Renovation Loan - Comerica	\$ 260,934	\$ 9,511
Synergy Loan	15,451	14,996
Synergy Renovation Loan	13,069	12,189
Copier Lease	-	1,577
Total	<u>\$ 289,454</u>	<u>\$ 38,273</u>

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Debt Service Fund (continued)

The Academy's debt service fund is used to pay principal and interest on the existing loans with Comerica Bank and Synergy Training Solutions. The outstanding principal balance of \$248,286 was paid on March 21, 2008 through a refinancing process with Comerica Bank. Commencing April 1, 2008, payments of principal and interest under the terms of the new note began. The maturity date of the loan was extended through February 13, 2013.

Capital Assets

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 331,850	\$ 331,850
Furniture and equipment	<u>37,148</u>	<u>37,148</u>
Total Capital Assets	368,998	368,998
Less accumulated depreciation	<u>346,247</u>	<u>321,722</u>
Net Capital Assets	<u><u>\$ 22,751</u></u>	<u><u>\$ 47,276</u></u>

The \$24,525 decrease in net capital assets is directly related to the increase in accumulated depreciation.

Conditions Affecting Next Year's Budget

The federal and state budget crisis will have a direct impact on funding for educational services. While an increase in per pupil funding has been approved for the 08/09 school year, this increase does not match the rate of expense increase for employee benefits, textbooks and other operating expenditures. The 08/09 enrollment has reached maximum capacity for the facility and the Academy will now enter a period of flat revenue with increasing expenditures. The revenue plateau calls for an evaluation of expansion alternatives as well as for creative fundraising and grant initiatives to be put in place.

Requests for Information

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, Synergy Training Solutions, 24535 Jefferson, Saint Clair Shores, MI 48080.

BASIC FINANCIAL STATEMENTS

Michigan Health Academy
Academy Wide
Statement of Net Assets
June 30, 2008

	Governmental Activities
ASSETS	
Cash	\$ 59,681
Due from other governmental units	264,910
Other receivables	7
Prepaid expense	33,356
Capital assets less accumulated depreciation	22,751
Total Assets	<u>380,705</u>
LIABILITIES	
Accounts payable	30,435
Accrued expense	7,369
Deferred revenue	10,602
Due to management company	242,922
Synergy loan-renovations, due within one year	14,015
Renovation loan, due within one year	19,083
Long-term liabilities	
Synergy loan-renovations, due in more than one year	22,944
Renovation loan, due in more than one year	222,303
Total Liabilities	<u>569,673</u>
NET ASSETS	
Invested in capital assets net of related debt	(255,594)
Unrestricted	66,626
Total Net Assets	<u>\$ (188,968)</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Academy Wide
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 704,608	\$ -	\$ 190,486	\$ (514,122)
Support services	806,758	-	58,971	(747,787)
Interest on long-term debt	18,464	-	-	(18,464)
Depreciation (unallocated)	24,525	-	-	(24,525)
Totals	<u>\$ 1,554,355</u>	<u>\$ -</u>	<u>\$ 249,457</u>	<u>(1,304,898)</u>
General revenues:				
State aid - unrestricted				1,350,366
Other				5,091
Total General Revenues				<u>1,355,457</u>
Change in Net Assets				50,559
Net Assets - Beginning of Year				(239,527)
Net Assets - End of Year				<u>\$ (188,968)</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Debt Fund	Totals (Memorandum Only)
<u>Assets</u>			
Cash	\$ 59,681	\$ -	\$ 59,681
Due from other governmental units	264,910	-	264,910
Other receivables	7	-	7
Prepays	33,356	-	33,356
Total Assets	<u>\$ 357,954</u>	<u>\$ -</u>	<u>\$ 357,954</u>
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 30,435	\$ -	\$ 30,435
Accrued liabilities	7,369	-	7,369
Deferred revenue	10,602	-	10,602
Due to management company	242,922	-	242,922
Total Liabilities	<u>291,328</u>	<u>-</u>	<u>291,328</u>
Fund Balance			
Unreserved and undesignated	66,626	-	66,626
Total Fund Balance	<u>66,626</u>	<u>-</u>	<u>66,626</u>
Total Liabilities and Fund Balance	<u>\$ 357,954</u>	<u>\$ -</u>	<u>\$ 357,954</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Reconciliation of Balance Sheet of Governmental Funds To Net Assets
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 66,626
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is	368,998
Accumulated depreciation is	(346,247)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Synergy loan- renovations	(36,959)
Renovation loan	(241,386)

Total Net Assets - Governmental Activities (District Wide)	<u>\$ (188,968)</u>
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The accompanying notes are an integral part of these financial statements.

Michigan Health
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008

Revenue	General	Debt Service	Totals (Memorandum Only)
Local	\$ 21,281	\$ -	\$ 21,281
State	1,456,350	-	1,456,350
Federal	127,283	-	127,283
Total Revenue	<u>1,604,914</u>	<u>-</u>	<u>1,604,914</u>
Expenditures			
Instruction			
Basic programs	457,747	-	457,747
Special education	54,735	-	54,735
Compensatory education	65,964	-	65,964
Career and technical education	126,163	-	126,163
Support Services			
Guidance services	25,163	-	25,163
Social work services	57,616	-	57,616
Pupil services	1,891	-	1,891
Improvement of instruction	57,443	-	57,443
Educational media services	5,527	-	5,527
Academic	1,020	-	1,020
General administration	207,275	-	207,275
School administration	139,047	-	139,047
Other school administration	1,065	-	1,065
Fiscal services	6,600	-	6,600
Operation and maintenance	292,119	-	292,119
Central	1,000	-	1,000
Technology	10,467	-	10,467
Pupil accounting	524	-	524
Debt service	-	307,918	307,918
Total Expenditures	<u>1,511,366</u>	<u>307,918</u>	<u>1,819,284</u>
Excess (Deficit) of Revenues over Expenditures	93,548	(307,918)	(214,370)
Other Financing Sources (Uses)			
Transfers in	-	59,632	59,632
Transfers out	(59,632)	-	(59,632)
Proceeds from refinancing	-	248,286	248,286
Total Other Financing Sources (Uses)	<u>(59,632)</u>	<u>307,918</u>	<u>248,286</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	33,916	-	33,916
Fund Balance, Beginning	32,710	-	32,710
Fund Balance, Ending	<u>\$ 66,626</u>	<u>\$ -</u>	<u>\$ 66,626</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net Change in Fund Balances - Governmental Funds	\$ 33,916
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(24,525)
Proceeds from the issuance of debt is a revenue in the governmental funds, but not in the statement of activities	(248,286)
Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities	289,454
Change in Net Assets of Governmental Activities (District Wide)	<u>\$ 50,559</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Statement of Fiduciary Net Assets
June 30, 2008

Assets	
Cash, student organizations	<u>\$ 7,012</u>
Total Assets	<u><u>\$ 7,012</u></u>
Liabilities	
Due to student organizations	<u>7,012</u>
Total Liabilities	<u><u>\$ 7,012</u></u>

The accompanying notes are an integral part of these financial statements.

MICHIGAN HEALTH ACADEMY NOTES TO THE FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Michigan Health Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1996, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2008, were \$40,562.

The Academy's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

The Academy-wide statement of activities presents a comparison between program expenses and program revenues. Revenues that are not classified as direct program revenues are presented as general revenues. Program revenues include grants and contributions. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

B. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Academy programs.

The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred.

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred, however, principal and interest on long-term debt is recognized when due.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Leasehold improvements 5 years
Furniture and equipment 5-20 years

The leasehold improvements are depreciated over the life of the operating lease.

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Liabilities

Accrued liabilities consist of the July and August oversight fees due to the Academy's oversight agency.

Due to Management Company

Due to Management Company consist of amounts due on contracted employee's and administrative fees that are due and payable for the current fiscal year.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued) Deferred Revenue

Deferred revenue represents amounts for which the Academy has received or is due to receive but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Obligations

In the Academy wide financial statements, long-term debt is reported as a liability in the statement of net assets.

In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a general fund budget by activity for the year ended June 30, 2008. Expenditures at this level in excess of amount budgeted are a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place before July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. The Academy's expenditure budget variances are illustrated in the required supplemental information.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations
- c. Commercial paper - within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$59,681 and Agency cash was \$7,012 while the bank balance was \$96,017. Of the bank balance, all was covered by federal depository insurance. The Academy does not have an investment policy and is not holding any investments.

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets subject to depreciation				
Leasehold improvements	\$ 331,850	\$ -	\$ -	\$ 331,850
Equipment and furniture	37,148	-	-	37,148
Total Capital Assets	<u>368,998</u>	<u>-</u>	<u>-</u>	<u>368,998</u>
Accumulated depreciation				
Leasehold improvements	257,725	21,832	-	279,557
Equipment and furniture	63,997	2,693	-	66,690
Total Accumulated Depreciation	<u>321,722</u>	<u>24,525</u>	<u>-</u>	<u>346,247</u>
Total Net Capital Assets	<u>\$ 47,276</u>	<u>\$ (24,525)</u>	<u>\$ -</u>	<u>\$ 22,751</u>

Depreciation expense was not charged to activities as the Academy considers its capital assets to impact multiple activities and allocation is not practical.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt

The Academy's long-term debt includes a bank loan with an original issue of \$290,000 bearing an interest rate of 6.05%. Monthly payments of principal and interest were \$2,113. The loan is a general fund obligation and was paid from general fund revenue transferred to the debt service fund. The note had been amortized over 15 years with a maturity date of February 2008. On March 21, 2008, the principal in the amount of \$278,286 was refinanced bearing an interest rate at refinancing of 5.8%. The loan is a general fund obligation and will be paid from general fund revenue transferred to the debt service fund. The note is unsecured but guaranteed by Henry Ford Hospital. The note has been amortized over ten years with a maturity date of February 13, 2013. The Academy is allowed to transfer up to twenty percent of state aid to the debt service fund to service the debt. For the year ended June 30, 2008, the transfer from the general fund to the debt service fund did not exceed twenty percent.

Long-term debt also includes a \$45,000 long-term note from the Academy's management company, bearing an interest rate of 3%. Installment of principal and interest shall be paid each month in the amount of \$1,309. The note matured in the current fiscal year.

The Academy borrowed \$72,000 from its management company during the fiscal year ending June 30, 2005 to make renovations to the building. This note bears an interest rate of 7% and matures in the 2011 fiscal year. Monthly payments are due in the amount of \$1,364.

A summary of long-term debt transactions follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Renovation loan	\$ 254,034	\$ 248,286	\$ 260,934	\$ 241,386	\$ 19,083
Synergy loan	15,451	-	15,451	-	-
Synergy loan-renovations	50,028	-	13,069	36,959	14,015
	<u>\$ 319,513</u>	<u>\$ 248,286</u>	<u>\$ 289,454</u>	<u>\$ 278,345</u>	<u>\$ 33,098</u>

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt (continued)

The annual requirements to service debt to maturity, including both principal and interest, are as follows:

Years Ending June 30,	Principal	Interest	Total
2009	\$ 33,098	\$ 15,854	\$ 48,952
2010	35,263	13,689	48,952
2011	29,378	11,496	40,873
2012	22,732	10,062	32,794
2013	157,874	5,273	163,148
Total	<u>\$ 278,345</u>	<u>\$ 56,374</u>	<u>\$ 334,719</u>

NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 7--Management Agreement

The Academy has entered into a management agreement with Synergy Training Solutions, Inc., a for-profit corporation. The management company provides the Academy with all personnel, as well as all Academy management, executive administration, fiscal services, curriculum services and office of the principal.

The amount expensed for the personnel, related benefits, payroll taxes, and fiscal services was \$870,479. The amount due the management company at June 30, 2008 was \$242,922.

Management fees are calculated on 10% of all revenues received directly or indirectly, from the State School Aid Act of 1979, from federal aid received by the Academy, and local sources of revenue. The amount expensed for management fees for the year ended June 30, 2008 was \$60,490.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments

The Academy entered into a lease agreement for new facilities with an unrelated party under an operating lease for the period July 2007 through June 30, 2012. The lease required monthly minimum payments of \$22,481 for the fiscal year ended June 30, 2008. In addition, extra rental payments were made to rent additional space as needed. The amount expensed under the lease totaled \$292,928 for the year ended June 30, 2008. Per the lease agreement, the monthly rental amount shall increase by the same percentage as the State unrestricted foundation grant allowance per pupil increases as calculated by Michigan Department of Education. Estimated payments for the years ending June 30, 2009 through June 30, 2012 are \$269,772 per year. This estimate will change each year as the foundation allowance changes.

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10-Inter-Fund Transfers

The makeup of inter-fund transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 59,632	Debt	\$ 59,632
Total	<u>\$ 59,632</u>	Total	<u>\$ 59,632</u>

The amount transferred from the general fund to the debt service was to cover principal and interest payments.

REQUIRED SUPPLEMENTAL INFORMATION

Michigan Health Academy
General Fund
Budgetary Comparison
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue				
Local	\$ 3,000	\$ 21,153	\$ 21,281	\$ 128
State	1,398,245	1,456,350	1,456,350	-
Federal	46,850	131,224	127,283	(3,941)
Total Revenues	<u>1,448,095</u>	<u>1,608,727</u>	<u>1,604,914</u>	<u>(3,813)</u>
Expenditures				
Current:				
Instruction				
Basic programs	463,662	458,695	457,747	(948)
Special education	50,942	56,948	54,735	(2,213)
Compensatory education	37,514	68,253	65,964	(2,289)
Career and technical education	126,754	128,571	126,163	(2,408)
Support Services				
Guidance services	27,956	25,163	25,163	-
Social work services	57,605	57,616	57,616	-
Pupil services	1,000	1,900	1,891	(9)
Improvement of instruction	7,157	58,495	57,443	(1,052)
Educational media services	5,000	5,527	5,527	-
Academic	4,000	1,300	1,020	(280)
General administration	181,717	209,696	207,275	(2,421)
School administration	140,862	140,271	139,047	(1,224)
Other school administration	2,000	1,750	1,065	(685)
Fiscal services	6,600	6,600	6,600	-
Other business services	31,862	31,862	-	(31,862)
Operation and maintenance	281,400	293,468	292,119	(1,349)
Central	500	1,000	1,000	-
Technology	5,000	10,500	10,467	(33)
Pupil accounting	700	525	524	(1)
Outgoing transfers and other	25,362	27,770	59,632	31,862
Total Expenditures	<u>1,457,593</u>	<u>1,585,910</u>	<u>1,570,998</u>	<u>(14,912)</u>
Excess (Deficiency) of Revenues Over Expenditures	(9,498)	22,817	33,916	11,099
Fund Balance - Beginning of Year	32,710	32,710	32,710	-
Fund Balance - End of Year	<u>\$ 23,212</u>	<u>\$ 55,527</u>	<u>\$ 66,626</u>	<u>\$ 11,099</u>

The accompanying notes are an integral part of these financial statements.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

October 8, 2008

To the Board of Directors
Michigan Health Academy

We have audited the financial statements of the governmental activities of Michigan Health Academy as of and for the year ended June 30, 2008, which comprise Michigan Health Academy's basic financial statements, and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Michigan Health Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Health Academy's internal control over financial. Accordingly, we do not express an opinion on the effectiveness of Michigan Health Academy's internal control over financial reporting.

To the Board of Directors
Michigan Health Academy
Page Two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Michigan Health Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Michigan Health Academy's financial statements that is more than inconsequential will not be prevented or detected by Michigan Health Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Michigan Health Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Michigan Health Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Provencio, Schauman & Thomas, P.C.
Certified Public Accountants